



## **Internal Operating P O L I C Y**

**Section: Office of the Controller**

**Subject: Fixed Assets**

**Approved By: DEQ Secretary**

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### **PURPOSE**

To establish policy and procedures for the acquisition, inventory, transfer and disposition of fixed assets, State and Federal, for the North Carolina Department of Environmental Quality.

### **POLICY**

The Financial Services Division has the custodial and supervisory duties of the fixed asset system. The Financial Services Division (FSD) has designated supervisory responsibility of the fixed asset control. The department's policy is to use the Fixed Asset System (FAS) of the North Carolina Accounting System (NCAS) to track the Department's fixed assets. By using the NCAS FAS module, the Fixed Asset Section of FSD can ensure that all fixed assets (inventoried and capitalized) are accounted for. The section must, also, ensure that the FAS balance to the N. C. Accounting System and that all NCAS expenses are properly coded to fixed assets, if applicable.

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## Fixed Assets Defined

A **fixed asset** is a long-lived tangible asset obtained or controlled as a result of past transactions, events or circumstances. Fixed assets are broken into two categories:

*capitalized assets  
and  
inventoried assets*

### Capitalized Fixed Assets

A **capitalized fixed asset** is tangible property, such as land, buildings and equipment, with a *cost greater than or equal to \$5,000.00 and a useful life of more than one year*. Capitalized fixed assets are acquired for use in normal operations and are not for resale. These assets are long-term in nature and may be subject to depreciation, depending on which fund was used to record the asset. *Only assets purchased for \$5,000.00 and over are capitalized.*

Assets purchased with General Funds are recorded in the General Fixed Assets Account Group. Depreciation of general fixed assets should not be recorded in the accounts of governmental funds.

### Inventoried Fixed Assets

**Inventoried Fixed Assets** are those items *valued at \$2500.00 through \$4,999.99 and recorded for inventory purposes only*. These items are not capitalized and are not subject to depreciation. This allows management to keep items on inventory, yet have a consistent capitalization limit statewide for the comprehensive annual financial report (CAFR). Inventoried assets will be maintained on the fixed asset system if their cost is *\$2500.00 through \$4,999.99 with the following exceptions*.

- All weapons must be inventoried regardless of cost. Weapons whose cost are greater than or equal to \$5,000 are capitalized.
- All land must be inventoried regardless of cost.
- All vehicles with a license plate and a cost between \$0 and \$4,999 must also be inventoried. Vehicles with a cost greater than \$5,000 are capitalized.

### Expensed Items

Expensed are items purchased for *less than \$2500.00 that will not be posted to the fixed asset system* unless otherwise noted. Further, items originally purchased for less than \$2500.00 will not be added to the fixed asset system when an addition or improvement to this item causes the item to be in excess of \$2500.00.

## General

According to **Generally Accepted Accounting Principles (GAAP)**, record fixed assets at historical cost or estimated historical costs. If ***purchasing a new asset***, the cost is the amount paid for the asset including freight. The amount recorded includes the total purchase price, less any discounts. It also includes any payment required to place the asset in its intended state of operation such as labor to install. If it is a ***donated asset***, the cost is defined as the fair market value on the date donated. *The fair market value is the estimated amount of the asset for which it would be exchanged between a willing buyer and seller when neither is forced into the exchange.* Both parties should have knowledge of all facts and consider it an equitable exchange.

## Exceptions

1. Exceptions to the minimum capitalization limit and/or minimum inventory limit will require written approval by the Office of the State Controller. All such requests for exceptions must be submitted to the Office of the State Controller through the Chief Fiscal Officer for the Department of Environmental Quality.
2. The Department of Environmental Quality has received an exception from the Office of State Controller for firearms and motor vehicles with a license plate including trailers, computers (CPUs), computer monitors and palm pilot computers that cost less than \$2500.00. These items will be added to the Fixed Asset System as inventoried assets.
3. All land is entered on the fixed asset system, regardless of cost.

## Level of Control

The fixed asset system will be maintained at the ***fund level of control***. For the Department of Environmental Quality, each division needs to maintain fixed assets based on location so that accurate inventory reports can be printed.

## Components

Fixed assets containing *separate physical parts (i.e. CPU, monitor and keyboard)* are no longer considered one asset having one or more **components**.

- *Each separate physical part is considered to be a separate asset and is individually evaluated according to the inventory/capitalization threshold in determining if it should be recorded on the Fixed Asset System.*
- If each separate asset exceeds the inventory/capitalization threshold, it is recorded in the Fixed Asset System and receives its own (FAS) number and tag.

The **total invoice cost** must be allocated to *each separate physical part* of the asset when the invoice lists or groups all the items on the invoice as one lump sum price.

- A \$3500 personal computer system (CPU, monitor, and keyboard) is purchased but invoiced as one-line item.

**Example 1:**

<b>Total Cost of Computer</b>	<b>\$3,500</b>
<b>Less Monitor</b>	<b>\$ 300</b> <i>Recorded in FAS - \$300 (Regardless of unit price)</i>
<b>Less Keyboard</b>	<b>\$ 50</b> <i>Not Recorded in FAS - does not meet threshold.</i>
<b>CPU Cost Would Be</b>	<b>\$3,150</b> <i>Recorded in FAS - for \$3150</i>

**Note:**

- ❖ If the component's cost **cannot** be determined, then the total cost will be allocated to the CPU and the CPU will be given a fixed asset number.
- ❖ When purchasing copiers and sorters, give each its own FAS number.

Once fixed assets are recorded in FAS, ***any adjustment to the values or useful lives requires management authorization.*** A fixed asset input form indicating a change should be completed and signed by the fiscal officer or a member of management.

**Fixed Asset Numbers** are assigned to each division by the Fixed Asset Section of the Financial Services Division. The Fixed Asset officer at each division will assign these numbers to their division assets. However, it will be the responsibility of the individual divisions to follow up on any asset for which they have not received a *numbered fixed asset tag* in a timely manner or which has not been added to their *fixed asset report*.

When **retiring or otherwise disposing** of inventoried assets containing component parts recorded prior to July 1, 1995, it is necessary to list all components no longer in service to ensure that they are removed. *Failure to remove all components disposed of will misstate assets in inventory.*

## **Buildings**

Buildings are structures that are *permanent* in nature. They will exist for more than one year and, may be subject to depreciation. According to **G.S. 143-336**,

*"State buildings mean all State buildings, utilities, and other property developments except the State Legislative Building, railroads, highway structures and bridge structures."*

## Guidelines

1. Buildings valued at \$5,000.00 or greater **are capitalized**. Those purchased for \$2500.00 to \$4999.99 are recorded on the fixed asset system for inventory purposes only. They **are not capitalized**. Those purchased for less than \$2500.00 *are expensed*.

**Note:**

**Any exception** to these guidelines must be approved by the **Department's CFO** and then by the **Office of State Controller**, *see Exceptions, pg. 7.*

2. Buildings are recorded at the *purchase price* or *construction cost*.
  - Cost should include all charges applicable to the building such as purchase price, contract price or job order costs and any other expenditure necessary to put a building or structure into its intended state of operation.
  - Other expenditures may include the following: professional fees (broker's or architect's fees), damage claims, cost of fixtures, insurance premiums or interest on construction and related costs incurred during the period of construction.

**Fixtures** permanently attached to the building, i.e. heating and ventilation systems should be included in the cost of the building.
3. **Donated buildings** should be recorded at the appraised fair market value at the time the building was donated.
4. If **using in-house resources** such as labor, materials and supplies to construct or add on to the building, these costs are to be included in the cost of the asset. Capitalize and record the cost as if outside sources were used.
5. If an **addition to a building** is constructed, its cost is added to the fixed asset system as a separate asset when such costs meet the inventory/capitalization threshold. The addition, meeting the inventory/capitalization threshold, should receive its own fixed asset number.
6. **Maintenance expenses** are incurred to keep assets in normal operating condition and to help maintain the original use of the building. Maintenance expenses do not extend the life of the building beyond the expected useful life at acquisition.

Maintenance costs are expensed and not capitalized. Such costs are charged to expenditure objects in the 532XXX series.



7. Buildings **need not** be tagged. The asset number is still recorded in the system, but not physically attached to the asset. *The legal description, including address and plat location found in the county Register of Deeds records, must be recorded in the asset record to identify it as being state property.*
8. **Rehabilitation costs** are incurred to restore or improve buildings or other capitalized assets acquired in a rundown condition. Property to be rehabilitated is usually purchased at a discounted price. The reason for the lower price is that considerable money will need to be spent to rehabilitate the asset before it can be placed into service. The rehabilitation costs incurred become part of the cost of the asset and are capitalized according to the same criteria as other capitalized assets. Normally, the costs take place over an extended period. Care must be taken to distinguish between maintenance and rehabilitation during this period.
9. Buildings **must be included** in the annual physical inventory.
10. The **long-term construction costs** of buildings are paid from capital improvement funds. Costs are accumulated while the building is under construction. Annually, they are recorded in the Construction in Progress account. When the Department either moves in the building or construction is completed, costs should be reclassified from the Construction in Progress account to the fixed asset building account.
11. **Renovation and improvement costs** are incurred to restore or improve buildings or other capitalized assets. These costs involve the substitution of old parts for new ones and increase the economic benefit to be derived from the asset. *Two criteria* must be met in determining whether a renovation or improvement cost should be capitalized.
  - The first criterion is whether the expenditure significantly extends the useful life of the original asset.
  - The second is if the expenditure exceeds the \$5000 capitalization threshold established for all fixed assets.

*If both criteria are met, the expenditure must be capitalized.* If parts of an asset are removed during a renovation project, the original cost (less depreciation, if applicable) of the part of the asset being removed should be eliminated from the FAS. Costs associated with removing structures to be replaced in the renovation process should be expensed. The costs of the renovation should be listed as a separate asset in the building section of FAS.

## Procedures

1. In general, buildings are purchased or constructed through the **Capital Improvement Fund**. The costs are accumulated by budget code and center (project) by the Capital Improvement Accounting Office.
2. The DEQ Financial Services Division will maintain records for the buildings that have been completed and those that are still under construction. At fiscal year end, the Fiscal Accountant in the DEQ Financial Services Division will add completed buildings to the fixed asset system and adjust the Construction in Progress account for the cost of buildings still under construction.
3. The DEQ Financial Services Division **must be notified** by the Division Offices of the purchase, transfer to or from, or disposition of any land or buildings. *This process is necessary in order to maintain accurate fixed asset information for financial statement purposes.*

## Land

*Land is the real estate property held by the Department of Environmental Quality.* Land can be purchased or otherwise acquired. All land is entered on the fixed asset system, regardless of cost. Land is entered to the fixed asset system when the Department of Environmental Quality takes ownership of the property.

- **Purchased land** should be entered at its cost. Cost includes its purchase price plus any other charges necessary to purchase the land. Other charges include costs such as site preparation expenditures, attorney fees, deed stamps, appraisals, surveys, and legal claims directly attributable to the land acquisition. If land and building are acquired as a single parcel, cost should be allocated between land and building, and recorded in the appropriate accounts.
- **Donated land** should be recorded at the appraised market value at the time of donation.

## Renovations and Improvements

**Renovations** increase the physical size or operating capabilities of an asset through expansion or extension. They do not involve replacements.

**Improvements** extend the useful life of an existing fixed asset, increase the normal rate of output, lower an asset's operating cost or increase efficiency.

### **Note:**

*Renovations and improvement costs are different from maintenance. Maintenance costs are incurred to keep the asset in normal operating condition.*

Two criteria must be met in determining whether a renovation or improvement cost should be capitalized.

1. The first criterion is whether the expenditure significantly extends the useful life of the original asset.
2. The second is if the expenditure meets the \$5000.00 capitalization threshold established for all fixed assets.

**If both these criteria are met, the expenditure must be capitalized.** Expenditures not meeting both criteria should be classified as a maintenance expense. Care must be taken when distinguishing between maintenance, renovation, and improvement costs. *Assets valued below \$5000.00 are expensed; they are not capitalized or depreciated.*

If *part of an asset* is removed during a renovation or improvement, the cost of the removed part must also be removed from the Fixed Asset System.

- Use all the available information in determining the original cost of the part being removed.
- The removal costs associated with the renovation should be expensed.

## Maintenance

Maintenance expenses:

- ◆ are incurred to keep assets in normal operating condition.
- ◆ are incurred to help maintain the original intended use of the asset.
- ◆ do not extend the life of the asset beyond the expected useful life at acquisition.
- ◆ are incurred to keep the asset operational throughout its useful life.

### Note:

*Maintenance costs are expensed and not capitalized.* The costs are charged to expenditure accounts in the **532XXX** series.

It is recommended that management review the maintenance account at least *annually* to consider:

1. Replacing an asset whose maintenance costs exceed those of other similar assets.
2. Reducing maintenance costs by using a service contract.
3. Replacing a service contract with a repair-as-needed program.
4. Reclassifying expenditures charged to maintenances that meet capitalization requirements.

## Lease Agreements

A lease is an agreement between a lessor and a lessee that gives the lessee the right to use property, plant, or equipment for a specific period of time in return for stipulated cash payments. Leases are classified as either **capital** or **operating**.

### Capital Leases

According to **Financial Standards Board (FASB)** Pronouncement 13, "Accounting for Leases," a lease is considered a *capital lease* if it meets any one of the following criteria:

1. The lease transfers ownership of the property to the lessee by the end of the lease term.
2. The lease contains an option to purchase the lease property at a bargain price.
3. The lease term is equal to or greater than 75 percent of the estimated economic life of the lease property (e.g., lease term is six years and the estimated life is eight years.)
4. The present value of rental and other minimum lease payments equals or exceeds 90 percent of the fair value of the leased property less any investment tax credit retained by the lessor, e.g. the present value of minimum lease payments equal \$9,000.00 and the fair value is \$10,000.00.

#### **Note:**

*The last two criteria are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property.*

**Accounting for the lease** is dependent on whether the lease is accounted for in a governmental fund or a trust fund.

Leases directly related to and expected to be paid from **proprietary funds and trust funds** should be included as an asset and liability of the respective funds.

All other assets acquired or obligated with a **no cancelable lease** are to be accounted for in the Fixed Assets Account Group. The corresponding liability is recorded in the General Long Term Debt Account Group.

If a lease agreement is to be **financed from general government resources**, it must be accounted for and reported on a basis consistent with governmental fund accounting principles.

Lease accounting for **proprietary funds** should follow FASB Statement 13, as amended and interpreted, without modification. Transactions for proprietary fund capital leases are accounted for and reported entirely within the individual proprietary fund.

The **amount to be recorded in the fixed asset system** upon signing the lease is the lesser of the present value at the beginning of the lease term of the minimum lease payments during the lease term, or the fair value of the leased property.

**Capital leased assets** must follow the same depreciation policy as similar owned fixed assets in the fund. If depreciated, the period is restricted to the lease term rather than the life of the asset unless the lease provides for transfer of title or includes a bargain purchase option.

The **periodic rental payments** are treated as payments of the lease obligation and interest is recorded on the remaining balance of the obligation. This is similar to other types of debt repayments.

## **Operating Leases**

To determine if a lease is operating, review the criteria for a capital lease. *If it does not meet any of the criteria for a capital lease, the lease is considered an **operating lease**.*

- All costs incurred are expensed when recording operating lease activity.
- Neither an asset nor an obligation is recorded for operating leases.
- Accordingly, rental payments are recorded as rental expense in the operating statements.

When **leasing land**, the lease is classified as an operating lease *unless it provides for transfer of title or includes a bargain purchase option.*

## **Purchasing and Accounting Procedures**

### **Purchasing Procedures**

#### **1. State Equipment, Furniture and Fixtures**

Equipment, furniture and fixtures, etc., procurement will originate with the issuance of an approved Purchase Order Request. *A copy of the Purchase Order, Invoice and Receipting Document should be on hand before a request for payment has been generated.*

**EXCEPTION - EMERGENCY PURCHASE:**

*An emergency purchase of equipment shall be for an Emergency Only. **Prior authorization** for an emergency purchase will be made through the chain of command with final approval by the Chief of the Purchasing Section or designee in his absence.*

**2. Federal Equipment, Furniture and Fixtures**

Equipment, furniture and fixtures, etc., as approved within the Federal Grant Award, procurement will originate with the issuance of a Purchase Order Request approved by the Project Director and the Federal Grant Accounting Section. *A copy of the Purchase Order, Invoice and Receipting Document should be on hand before a request for payment has been generated.*

**Receipt of Equipment, Furniture and Fixtures****1. State Equipment, Furniture and Fixtures**

*Fixed assets must be properly receipted prior to payment of any invoices.*

**2. Federal Equipment, Furniture and Fixtures**

*Fixed assets must be properly receipted prior to payment of any invoices.*

**CAUTION!!**

**SERIAL NUMBERS, WHERE APPLICABLE, WILL BE RECORDED ON MATERIAL RECEIVED REPORTS PREPARED FOR RECEIPT OF EQUIPMENT. EQUIPMENT NOT HAVING AN IDENTIFYING SERIAL NUMBER RECEIVED WILL BE IDENTIFIED AND NOTED ON THE MATERIAL RECEIVED REPORT.**

**Accounting Procedures**

To assure the accuracy of fixed assets records on a continuing basis, it is necessary to reconcile FAS records with NCAS on a periodic basis. The division/office FAS designated employee shall reconcile the FAS records to the NCAS records on a monthly basis. An additional reconciliation may be necessary after completion of the annual physical inventory and the resulting FAS adjustments. This year-end reconciliation will be of primary importance in assuring the integrity of the Department annual financial statement and will also be the primary responsibility of the Department's Fixed Asset Accountant.

Financial Services has the custodial and supervisory duties of the fixed asset system.

- Financial Services has *designated supervisory responsibility* of the fixed asset control.

The Fixed Asset Section of the Financial Services Division is responsible for:

- assigning equipment numbers to the divisions and keying information into the fixed asset computer system.
- ensuring that the N C accounting system expenses balances to the fixed asset system accounts.

## **Tagging Assets**

Maintaining a positive identification of assets is the primary purpose of tagging. Tagging is important to:

- Provide an accurate method of identifying individual assets
- Aid in the periodic physical inventory
- Control the location of all physical assets
- Aid in maintenance of fixed assets
- Provide a common ground of communication for both the accounting department and the asset's users.

Generally, all fixed assets (capitalized and inventoried) are tagged. Some assets, such as buildings, firearms, and land are not tagged. The asset number is still recorded in the inventory system, but not physically attached to the asset. For land, a description of the property is recorded which includes address and plat location found in the county Register of Deeds records.

Items not needing a tag are:

- Buildings (record legal description in asset record)
- Land (record legal description in asset record)
- Firearms (record serial number in asset record)
- Underwater Equipment (record serial number in asset record)
- GPS and handheld radios (record serial number in asset record)
- All Cameras (record serial number in asset record)

## Equipment Number Assignment

The Fixed Asset Section currently assigns groups of asset numbers to each division to be used for fixed asset acquisitions with costs of **\$2500 or greater**. The Fixed Asset Officer of each division will assign the equipment number to the fixed asset as soon after acquisition as possible. When an asset is purchased, all input forms must be completed and sent to the Fixed Asset Section *by the 15<sup>th</sup> of the month following the month of purchase*. The assigned number will appear on the division's Fixed Asset Report. For divisions inputting their own fixed assets, input must be completed *by the 15<sup>th</sup> of the month after the month the asset is purchased*.

It will be the responsibility of each facility to follow up to ensure that an equipment number has been assigned to each fixed asset and that it is properly tagged, if required.

## Equipment Identification Labels and Tags

After assignment of equipment numbers, the division will forward the equipment tags to the respective locations. Upon receipt of these labels/tags, the Fixed Asset Officer or designee will have them attached to the identified equipment.

It will be the responsibility of each location to ensure that an equipment tag has been received for each asset required to be tagged.

## Equipment Assignment

The Section Chief or Program Manager of the division/office shall be assigned responsibility for their equipment. Any transfer of Fixed Assets from one section/office/NCAS Center to another must be formally transferred by completing the appropriate forms. These forms must be completed, signed and forwarded to the Department Fixed Asset Accountant. Individuals to whom equipment is assigned are not relieved of responsibility for that equipment, regardless of whether it has been physically transferred to others, unless written notice or release of the item and reassignment to another individual is submitted to the FAS designated employee via the appropriate forms.

## Physical Inventory

A **physical inventory of capitalized fixed assets** is taken to verify that capitalized assets physically located in the Department are recorded in the fixed asset accounts. At the same time a physical inventory of inventoried items is taken by all locations to ensure these items have been recorded properly. Inventories must be taken at least annually.

The Fixed Asset Section of the Financial Services Division will furnish each location with an updated Fixed Asset Report for the taking of a physical inventory *once each year*. The inventory is not to be taken by a person who has custodial responsibility for the assets, nor has responsibility for receiving, checking in, tagging, or recording the assets.



***A physical inventory of capitalized assets and inventoried items should be taken each time there is a change at a management or supervisory level that has custodial responsibility for the assets, or at least once each fiscal year prior to June 30.*** For divisions, this means a change in the location head; however, for changes in management at lower levels, it will be left to the discretion of the location head whether to conduct a physical inventory. The outgoing and incoming supervisor/manager should sign the inventory sheets indicating the count and location of the assets on the system are accurate.

Exceptions to or changes to a physical inventory will be noted on the Fixed Asset Report and communicated to the Fixed Asset Section by the head of the division, the Fixed Asset Officer or their designee. Examples would include:

- assets listed on report not found at the location
- assets at the location not listed on the report
- missing or incorrect serial number(s)
- missing or incorrect descriptions

The Fixed Asset Section of the Financial Services Division will compare assets missing from one facility to those added manually to reports at other locations. Matches will be relocated on the Fixed Asset System to list them properly. Facilities will be notified of any changes. The Fixed Asset Section will notify the Grants Accounting Section prior to any changes occurring which pertains to grant (federal and state) equipment.

After this process, ***any missing assets should be listed on a Missing Asset Form*** by the person last responsible for the asset. The form is routed through the location head for signature, and forwarded to the Fixed Asset Section of the DEQ's Financial Services Division. Once the approved form has been received, the Fixed Asset Section will change the status code on the Fixed Asset System to missing (M) and change the location to missing. This is different from an asset that is believed to be stolen. If any asset is believed to be missing due to a theft, a theft report must be completed and the proper agencies contacted. *For further instructions, see the section on Theft on page 36.*

A Fixed Asset Report, listing missing assets, will be sent to the person responsible for the asset by the Fixed Asset Section of the DEQ Financial Services Division.

- This person will then be *required* to document all the efforts made to find the missing asset(s).
- If, after *one year*, the asset is *not found*, it should be retired as a lost asset.
- The Office of the State Controller will make periodic reviews of fixed assets listed as missing.

- If the asset is found, it will be noted on the printout and a memorandum sent to the Fixed Asset Section stating the asset has been located.
- The Fixed Asset Office should then change the status code to "U" (in use) and change location from missing to correct location.

Supplies inventories shall be managed in a manner which ensures that only the minimum supply level necessary to conduct business without disruption is stocked. Economic order quantities shall be considered in implementing procedures to control inventories.

There will be a physical inventory of supplies not less than once a year prior to June 30th each year. The division section which has responsibility for placing orders or maintaining inventory has the responsibility to conduct such physical inventory. Supplies inventory summaries and count details are reported to the Controller's office for inclusion into the CAFR package.

## **Transferring Assets**

*Assets are transferred when they are permanently moved from one agency to another. If the move is temporary, it is treated as an asset on loan to another agency.*

- A transfer should not be confused with a location change.
- A transfer takes place when the asset is moved from one agency to another.
- Unless the owning agency changes, it is a location change.

Persons making transfers to the system need to verify with the Fixed Asset Section that a transfer and not a location change have occurred.

**A move to another Agency outside the Department of Environmental Quality** is considered a transfer. Transfers of equipment to other Agencies outside the Department of Environmental Quality will be handled like surplus property (unless the division is moved to another Agency). *For more information, see the section on Surplus Property on page 32.*

**Location changes are changes from one division/location to another within the Department of Environmental Quality.** These changes are not considered transfers, but rather location changes. Location changes of equipment, etc., from one location to another will be accomplished by the issuance of a Change of Location authorization.

*The Fixed Asset Section will notify the Grant Accounting Office prior to any transfers or location changes of grant (federal and state) equipment.*

Should Federally funded fixed assets be transferred, either inter or intra division/agency, the Controller designee will determine the appropriateness. The division/office will follow prescribed uniform standards governing the utilization and disposition of property furnished by the Federal Government or acquired in whole or part with federal funds or whose costs have

been charged to a project supported by a federal grant when surplus property and capitalized equipment.

## Surplus Property

*Surplus property is any equipment or other property that is no longer needed in the Agency.* This property does not have to be on the fixed asset system to be considered surplus property. The Department can move the assets to State Surplus Property for sale or transfer.

*If transferring/moving the item to State Surplus is not practical*, i.e. large pieces of equipment, the item may be advertised through State Surplus yet retained at the Department of Environmental Quality facility for bidder inspection.

Once an item is declared surplus, *the status code will be changed to “S”*. This is true whether the item is physically located at State Surplus Property or being retained at a DEQ site. Items actually sent to State Surplus will have their location changed to “surplus”.

When feasible or practical, State Surplus Property will transfer property between agencies at values determined to be reasonable. If other agencies have no need for the asset, State Surplus Property attempts to sell the asset at the highest price possible. This is generally done by offering the asset to the public through sealed competitive bids, or other means. Due to the time it takes to receive the asset, prepare it for sale, and process bids for a large number of items, a sale may take three to six months.

After the item is sold, State Surplus Property notifies the Agency of the sales price and remits a check to the Financial Services Division. If the item was transferred, State Surplus Property will notify the Department as to which agency received the item. Entries must then be made to the fixed asset system to retire or transfer the asset.

## Disposition of Surplus Property

Before any piece of equipment or property can be sold or disposed of as surplus, proper written management approval must be obtained. The request is made on a **Surplus Property Disposal Form** (form DPF-23).

- The fixed asset number, if applicable, and a description of each item must be submitted along with an explanation of why the item(s) is to be sold or otherwise disposed of.
- Assets declared surplus cannot be retired when sold without an asset number.
- All component asset numbers must also be included.
- Information also to be included should be any major improvements/repairs made in the last year, the present condition of the item and the minimum bid price to be accepted.

Only after approval by proper management can disposition of property proceed. Management approval is defined for this purpose to be the division head or designee and the Department Purchasing Officer.

DEQ's Purchase and Services section will provide information on surplus equipment and other items to the State Surplus Property Office.

- Form DPF-23 should be sent to the Fixed Asset Section of the Financial Services Division after obtaining signature of receipt from State Surplus Property.
- Once the Fixed Asset Section receives a signed (by State Surplus Property) copy of form DPF-23, the location of the asset will be changed to surplus.

**Negotiated bids** must be made through State Surplus Property Officer.

**Junk Property**, items that are considered worthless should still be sent through State Surplus.

**CAUTION:**

*Under no circumstances can State-owned equipment be donated, traded-in, or given to another entity without approval of the State Surplus Property Office.*

**Related Party Transactions**

When surplus property has been offered to the general public through sealed bids, a contact person is listed on the bid listing. Immediate family members of this contact person will not be allowed to bid unless the Department of Environmental Quality's Chief Fiscal Officer is notified in writing.

- Immediate family is defined as spouse, parents, children, brother, sister, grandparents and grandchildren. Also included are the step, half and in-law relationships.

**Repairs**

Property should not be used once it is placed in surplus status except for bidder inspection requirements. All surplus items are sold on an "as is" basis. No repairs may be made once an item is declared surplus.

**Sale of Livestock**

The sale of all lots of livestock must be done through State Surplus Property. Bidders should be notified that bids must be called in to the State Surplus Property Office. Livestock that is injured will be sent to local meat processors subject to "kill."

- Exceptions to above policy, e.g. cull animals, will be allowed in accordance with directions from the State Surplus Officer.

## **Sale of Farm Commodities**

The sale of farm commodities such as soybeans, peanuts, cotton, steel, aluminum, etc. will be handled in accordance with directions from the State Surplus Officer.

## **Assets Declared Surplus Property**

Assets declared surplus property through the completion of DPF-23 will have status changed to "S". Assets not identified with an asset number will not be updated properly in FAS. The DPF-23 signed by State surplus will allow the Fixed Asset Section to change the location of the fixed asset. Items sold through State Surplus will be retired when the check is received in Financial Services. Assets not identified with an asset number will not be retired and will remain on the divisions Fixed Asset Report.

## **Grant Equipment (*Federal and State*)**

The disposition of grant equipment will follow the procedures listed above, with the following additions:

- Requests for the disposition of grant equipment should be submitted separately from requests for disposition of other equipment.
- In addition, before disposition of any grant property, the facility must have approval of the request by the Grant Accounting Office.
- The Grant Accounting Office will:
  1. research any grant (federal and state) requirements for disposition of grant property
  2. obtain appropriate federal or state approval
  3. notify the Central Accounting Office that appropriate federal and state approval has been obtained and any restrictions or special procedures are to be followed

*Grant (Federal and State) Equipment Returned to Funding Agency.* If assets are required to be returned to the funding agency, a list of the equipment returned to the Grant Agency must be made and shall include the following information:

- ◆ grant project number
- ◆ equipment number
- ◆ description of equipment
- ◆ serial number(s)
- ◆ A release of responsibility signed by authorized person and/or agency receiving the equipment. All documentation relating to the release of the equipment will be forwarded to the Grant Accounting Section who will authorize removal of the equipment from the equipment inventory.

## Theft

According to **General Statute 114-15.1**, if any state property has been stolen, the employee discovering the theft must report the theft to his/her supervisor as soon as possible, but *no later than **three days*** from the day of discovery. The supervisor is then to notify the Division/Agency head immediately. The Supervisor or Division/Agency head must file a police report with local authorities. (For agencies located in the downtown Raleigh complex, State Capital Police should be notified.) The Division/Agency head must notify DEQ's Office of General Counsel (OGC) with a copy of police report and a completed OGC State Property Misuse form within 1 week of filing the police report. DEQ's OGC will then notify the State Bureau of Investigation (SBI) of the theft, if necessary. If the investigation reveals a violation of criminal laws, the district attorney will be contacted by the SBI for further legal action. After an investigation by DEQ's OGC, the Financial Services Division (FSD) Property Management Section will be notified by OGC with a copy of all paperwork. Information regarding involuntary disposition of equipment as a result of theft shall be accompanied by a copy of the police report and/or division investigation report. A police report will be required in the case of theft of grant (federal and/or state) property. The Fixed Asset Section will retire the stolen asset(s) once the report from OGC has been received. (No retirement form is needed.) The FSD Property Management Section will report the theft of federal property to the Federal Grant Accounting section once they receive the information from DEQ's OGC. A stolen asset will be retired on the fixed asset system with a retirement code of "L".

Misuse forms and instructions can be found on the Property Management folder on the FSD Portal.

## Donated Equipment

When an offer of donated equipment is received, careful consideration should be given to the usefulness of the equipment to the operation of the Department and potential repair costs.

- After receiving approval through the chain of command to accept donated equipment, it will be responsibility of the location head to notify the division's Fixed Asset Officer to assign an equipment number.
- The equipment label issued bearing the assigned number for the donated equipment, will be forwarded to the location for attachment to the equipment.
- The donated equipment is recorded at fair market value as of the date of donation. A fixed asset form is to be forwarded to the fixed asset section of Financial Services to ensure inclusion of the asset on FAS.

## **Federal Surplus Property**

The Department of Environmental Quality will follow the rules and regulations set forth by the Department of Administration pertaining to the acquisition and utilization of Federal Surplus Property. These rules are as follows:

1. The property is needed and will be utilized by the donee (Department of Environmental Quality) and funds are available to pay all costs and charges incident to donation. The property will be used by the Donee Institution (Department of Environmental Quality) and not for personal use.
2. The property will be put into utilization for the purpose for which acquired within one year of receipt and shall be continued in use for such purpose for one year from the date the property was placed in use, except there will be a period of restriction of 18 months on all property with a Government cost of \$5,000.00 and all passenger motor vehicles, regardless of Government cost.
3. Additional restrictions of up to 5 years will apply for special types of property such as aircraft, vessels and other related property.
4. All property will be utilized by the donee institution (DEQ) that the property was transferred to and the property cannot be loaned, leased, rented, traded, sold, cannibalized or otherwise disposed of without prior written approval of the state agency (Department of Administration) or G.S.A. while the property is still under the state and federal restricted period of utilization.
5. Property that is no longer needed by the donee (DEQ) which is still under state and federal restrictions can be returned to the state agency (Department of Administration) or be retransferred to another eligible Donee institution or organization provided the donee (DEQ) makes written request to the state agency (Department of Administration) requesting such action and the state agency (Department of Administration) approves the desired action.
6. All property acquired by the donee (DEQ) is on an "as is", "where is" basis, without warranty of any kind.
7. Cannibalization is the taking of usable parts from one machine (an inoperative machine) to construct or repair another machine.
  - i. Property with a Govt. cost of less than \$5,000.00, except passenger vehicles can be approved for cannibalization at the time it is charged out to the donee (Department of Environmental Quality) by the state agency (Department of Administration) check out clerk provided the property has no utilization potential except through cannibalization.

- ii. Property in the agency warehouse, with a Govt. cost of \$5,000.00 or more and passenger vehicles which has no prior G.S.A. approval for cannibalization by the state agency  
(Department of Administration) federal property officer provided the property has no utilization potential as a unit and cannibalization would cause good utilization potential.

Written request to the Federal Property Officer (Department of Administration) must be implemented by the DEQ CFO and written approval granted by the Federal Property Officer before cannibalization approval can be obtained for the aforementioned property

- iii. Property which has been transferred to a Donee (Department of Environmental Quality) without cannibalization approval can be cannibalized during the state and federal restricted period provided the Donee (Department of Environmental Quality) furnishes the state (Department of Administration) written justification for such action and the state agency (Department of Administration) approves such action.
- iv. No property, regardless of Govt. cost, which has been transferred to a Donee (Department of Environmental Quality), may be cannibalized during the federal restricted period or the state restricted period, unless approval is granted by the state agency (Department of Administration).